CORRECTED FISCAL NOTE

HB 3031 - SB 3363

March 23, 2006

SUMMARY OF BILL: Requires any private entity which receives tax credits or public funding as an incentive to establish operations in the state to refund the full value of such incentives, if the entity terminates operations in the state within five years of receiving such incentives.

ESTIMATED FISCAL IMPACT:

On March 6, 2006, we issued a fiscal note indicating a dependence upon the number of business entities that would receive economic incentives and ultimately terminate operations in the state within five years of receiving such economic incentives. Under the assumption that historical relocation patterns continue in the future, we estimated that approximately $5,000,000 in economic incentives could be returned to the state over a five-year period. We also indicated that there could be some residual economic impact, but such impact was not quantifiable. Based on new information provided by the Department of Economic and Community Development, the fiscal impact of this bill is:

(CORRECTED)

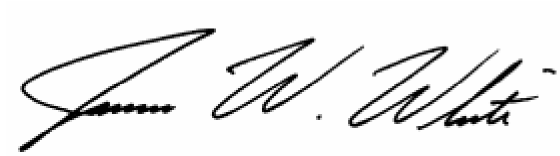
Other Fiscal Impact – The fiscal impact of this bill is dependent upon the number of business entities receiving economic incentives that would terminate operations within five years of receiving such incentives. Assuming that historical relocation patterns continue, and the average length of time these businesses would remain open is 3.5 years, an amount estimated to exceed $385,000 could be returned to the state over a five-year period (approximately $77,000 per year). A small portion of these funds would probably be returned to the state prior to FY08-09. In addition, some significant economic impacts may result as well. First, businesses may elect to maintain skeletal operations until the five-year period has ended, effectively reducing any refunds returned to the state. Second, some businesses may consider this a strong disincentive for remaining in or relocating to Tennessee in the future. As a result, longer-term consequences could eventually outweigh any refunds made to the state.

Assumptions:

- Applies to all contracts entered into between the state and private entities, including but not limited to, public contracts, economic development agreements and funding received pursuant to the Industrial Finance Corporation Act.
- Excludes contracts in effect either on or prior to June 30, 2006.
- Applies to contracts entered into, or renewed, on or after July 1, 2006.
- Entities terminating operations in the state who have received benefits would be responsible for returning the entire amount of benefits to the state, despite operating for periods of time less than five years.
- According to the Department of Economic and Community Development, the cumulative amount of grant funds provided private companies, which established and terminated operations in Tennessee over the past five years, is approximately $185,000 (approximately $37,000 per year).
- The amount of revenue the state would receive from refunds of tax credits is difficult to determine because of several unknown factors, including the number of jobs eliminated, the number of companies that will close, and the number of companies that would maintain skeletal operations for the five-year period in order to avoid tax credit refunds.
- The amount of tax credits that would be refunded is estimated to exceed $200,000 over five years ($40,000 per year).
- Private companies that received incentives, and ultimately closed within five years, operated for an average of 3.6 years prior to closing. Therefore, any increase to state revenues resulting from refunds of ECD grants or refunds of tax credits would probably not be realized until several years into the future.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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